City of Tucson Transient Rental (Hotel/Motel) Tax Changes

The City of Tucson has adopted code changes that affect transient rental businesses and businesses who provide services through hotels. Effective January 1, 2007, these changes will make Tucson's code similar to the State of Arizona's code and other Arizona cities' tax codes. Tucson's interpretation of the code (where state and city codes are similar) will be following the Arizona Transaction Privilege Tax Ruling TPR 06-1 and the accompanying matrix.

Changes and General Information

The definition of transient is changing. Currently, Tucson considers all customers staying for 30 days or less to be transient, and therefore, the income received taxable. On a customer's 31st consecutive day, the rent income became exempt from tax. **This will change.** Income received from customers renting on a daily or weekly basis, or any other basis **for less than 30 consecutive calendar days**, will be taxable. A customer renting in weekly blocks will always remain a taxable customer even if they stay for 30 days or more. Rental income is exempt only if the customer informs the hotel, in writing, that they are staying for at least 30 consecutive days. If the customer leaves before the 30th day, the income will become taxable unless the customer is committed to pay for the 30 day minimum.

The matrix and the new interpretation of the code will change how some hotel related charges are classified for tax purposes. The general rule of thumb is that if the activity is only available to hotel guests, the income is subject to the transient rental tax. If the activity is also available to non-hotel guests, then the income may be subject to tax under a different activity, such as retail or rental, or it may be exempt as a service. Tucson currently considers charges for rollaway beds, refrigerators or room safes to be taxable under the rental activities for tangible and real property. The new interpretation will tax the income under the transient rental activity. Fees charged for spa usage only available to guests will be subject to transient rental tax. If the spa is open to the public, then the income is tax exempt.

For a complete list, please review the matrix attached to the TPR. The TPR can be found at www.azdor.gov/ResearchStats/rulings/salerule.htm. Once there, click on TPR06-1. The link to the matrix is imbedded in the TPR. Scroll down to page 14 and look for the phrase "the Matrix" in a blue font color. Click on the phrase and the matrix will open. To review the City ordinances and interpretation differences, go to www.tucsonaz.gov/finance.

Another transient rental code change will subject delinquent taxes or taxes paid late, to the same rules and rates listed in Chapter 19, Section 540 of the Tucson tax code.

Transient vs. Non-Transient

Examples of Transient Customers (Taxable):

- 1. A customer checks in for one week. All of the income is taxable.
- 2. A customer checks in on the 1st to stay through the 7th. On the 7th, they extend their stay to the 14th. On the 14th, they extend their stay until the 30th. Because each extension is less than 30 days, this customer is always a transient. Therefore, the income receive from this customer is taxable.

Examples of Non-Transient Customers (Non-Taxable):

- 3. A customer checks in and informs the hotel they will be staying from March 5th through April 14th (41 days). The rental income is exempt from tax for the entire stay.
- 4. An airline company contracts with a hotel to rent a block of 10 rooms for a year. These rooms will be used by the airline's employees when they have a layover in Tucson. During the year, a variety of employees use the rooms and not all 10 rooms are occupied each night. The rental contract by the airline company for a year does not meet the definition of transient, and therefore, the income is exempt from tax.

Examples of Combinations:

- 5. The customer in example #3 checks out on March 30th. They only stayed for 25 days and will only pay for 25 days. Therefore, they are a transient customer and the income received from them would be taxable.
- 6. If the customer in example #4 is obligated to pay for all 41 days even though they check out earlier, then all of the income would be exempt.
- 7. If a customer originally rents the room on a daily or weekly basis and then informs the hotel that they will be staying for an additional time period of at least 30 days, the rent becomes exempt when the hotel is informed of the longer stay. For example, the customer checks in on March 5th and has reserved the room through March 11th. On March 11th, the customer extends their stay until April 14th (35 days). The rent received for March 5th through March 10th (6 days) is taxable. The rent received from March 11th through April 14th is exempt.

Documentation

Documentation is needed for non-transient rentals. A written document containing the following information should be kept by the hotel:

- 1. Customer name and room number,
- 2. Dates customer will be staying,
- 3. Customer signature and date when they informed the hotel they would be staying for 30 days or more,
- 4. The actual date the customer checked out.

If documentation is not provided, the income will be considered taxable.

Summary Chart of Changes

| Subject | Previously Taxed Under Activity Number | New Hotel Matrix Under Activity Number |
|--|--|--|
| HOTEL ROOM CHARGES: | | |
| Transient Room Rental | 18 / 22 | 18 / 22 |
| Transient Definition | 30 days or less | less than 30 days |
| | | daily & weekly not exempt |
| No Show Revenue | 18 | 18 |
| Complimentary Rooms | N/A | N/A |
| Pet Charges: | | |
| Pet Charges (in room) | 18 | 18 |
| Pet Cleanup | occupational | 18 |
| Pet Grooming | occupational | 18 |
| Child Care Charges: | | |
| Babysitting | occupational | 18 |
| Babysitting & Entertainment | 12 | 12 |
| Other Charges: | 4.4 | 10 |
| Rollaway Bed Charges | 14 | 18 |
| Refrigerator Charges | 14 | 18 |
| Safe Charges | 13 | 18 |
| Mini Bar / Other Items Sold in Ro | oom 17 | 17 |
| OTHER GUEST CHARGES: | | |
| Sold in Room: | | |
| Packaged Food Sales | N/A | N/A |
| Non Food Sales | 17 | 17 |
| Beverage Sales | N/A | N/A |
| Liquor Sales | 17 | 17 |
| Telephone Charges: | 0.5 | 0.5 |
| Local and Intrastate | 05 | 05 |
| High Speed Internet Access | N/A | N/A |
| Bundled Room, Telecom, Interne | | 18 |
| Bundled Telecom & Internet | 05 | 05 |
| Laundry Services: | occupations1 | 18 |
| Coin Operated | occupational | 18 |
| Hotel Laundry Service | occupational | 10 |
| Television / Videos: | 05 | 18 |
| Pay Per View Television Video Game Rental | 05 14 | 18 |
| Movie / DVD Rental | 14 14 | 18 |
| MIONIE / DND KEIILAI | 14 | 10 |

| Subject | Previously Taxed Under Activity Number | New Hotel Matrix Under Activity Number |
|--|--|--|
| Subject | receivity reamou | receiving realises |
| Parking: | | |
| Mandatory Valet Service | occupational | 18 |
| Guest Option Valet | occupational | occupational |
| Self Parking Charges | 13 | 13 |
| Car Rental | 14 | 14 |
| Transportation Fees: | | |
| Performed by Hotel | 01 | 01 |
| Mark-up on Service Performed | | |
| By Outside Provider | 01 | 18 |
| Separate Charge to Arrange | | |
| Third Party Service | 12 | 18 |
| Fees: | | |
| Club Membership Fees | occupational | occupational |
| Lessons | occupational | occupational |
| Green Fees | 12 | 12 |
| Health Spa & Salon: | | |
| Open to the Public: | | |
| Spa Usage Fees | occupational | occupational |
| Tanning Booth | occupational | 14 |
| Not Open to the Public: All Spa & Salon Revenue | occupational | 18 |
| All Spa & Salon Revenue | occupational | 10 |
| Food and Beverage: | | |
| Restaurant Food Sales | 11 | 11 |
| Beverages | 11 | 11 |
| Room Service | 11 | 11 |
| Cover Charge | 12 | 11 |
| Complimentary Meals to Guests | 99 | 99 |
| Employees, Free Meals | N/A | N/A |
| Meeting / Banquet Rooms | 13 | 13 |
| Gift Shop | 17 | 17 |
| Miscellaneous Charges: | | |
| Commissions for ATMs, vending | g, etc 13 | 13 |
| Computer Usage Charges | | |
| Open to Public | 05 | 14 |
| Not Open to Public | 05 | 18 |
| Equipment Rental | 14 | 14 |
| Floral, guests only | 17 | 18 |
| Incoming Fax | 10 | 10 |
| Lease of Real Property | 13 | 13 |

| Subject | Previously Taxed Under Activity Number | New Hotel Matrix Under Activity Number |
|------------------------------|--|--|
| Miscellaneous Charges cont.: | | |
| Outgoing Fax (intrastate) | 05 | 05 |
| Prepaid Phone Cards | 17 | 17 |
| Secretarial Services | occupational | 18 |
| Shipping / Mailing: | • | |
| Open to Public | occupational | occupational |
| Not Open to Public | occupational | 18 |
| Telephone Commissions | 13 | 13 |
| Vending Machine Sales | 17 | 17 |
| HOTEL PURCHASES | | |
| In Room Amenities: | | |
| Personal Hygiene | N/A | N/A |
| Other Than Personal Hygiene | 99 | 99 |
| Newspapers | 99 | 99 |
| Linens and Towels | 99 | 99 |
| Promotional Materials | 99 | 99 |
| Dinnerware Purchases | 99 | 99 |
| Capital Assets | 99 | 99 |

Notes:

- Unless noted these are charges billed by the hotel for guests only
- Activity Numbers
 - 01 Transportation
 - 05 Telecommunications
 - 11 Restaurant
 - 12 Amusements
 - 13 Rental, Real Property
 - 14 Rental, Personal Property
 - 17 Retail
 - 18 Transient Rental
 - 22 Room Surtax
 - 99 Use Tax

Occupational License